

SAN FRANCISCO'S 1980 COMMUNITY
DEVELOPMENT BLOCK GRANT PROGRAM

REPLIES OF
MAYOR'S OFFICE OF COMMUNITY DEVELOPMENT
AND
U.S. DEPT. OF HOUSING & URBAN DEVELOPMENT
TO ADMINISTRATIVE COMPLAINT OF
SAN FRANCISCO BLOCK GRANT COMPLIANCE
COALITION

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January 10, 1980

DIANNE FEINSTEIN

MAYOR

JAMES H. JOHNSON

DIRECTOR

Mr. Steven B. Sachs, Program Manager Area C
U. S. Department of Housing and Urban
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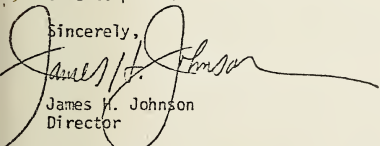
Dear Mr. Sachs:

Transmitted herewith are the City's responses to the Administrative Complaint on the City's Fiscal Year 1980 Community Block Grant Program filed by the San Francisco Block Grant Compliance Coalition. The City's response centers upon the specific areas identified in the complainant's presentation as outlined in the Table of Content.

In regard to the complainants and the statement by the San Francisco Lawyers' Committee for Urban Affairs that the coalition is broadly representative of the City's low and moderate income neighborhoods, we have made inquiries beginning on December 24, 1979 of Committee Member Michael Traynor to provide information on the representation of the component organizations. Specifically three of the organizations (Bernal Heights Residents for Community Development Reform, Committee to Restructure...., and the Western Addition Community Development Citizens Committee) have not participated in any of the hearings or public meetings associated with the lengthy process in developing a community development application. Mr. Traynor indicated to us on December 31, 1979 that information on the membership of the Coalition would be provided shortly but to date we are still awaiting his response.

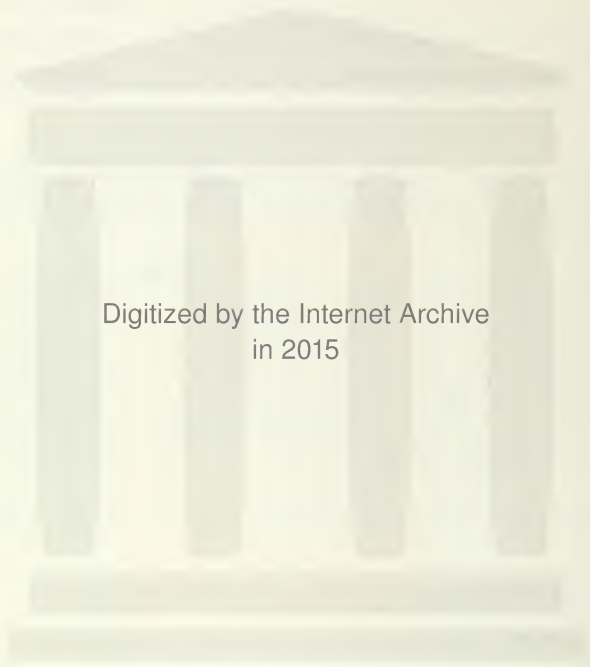
Please let us know if additional information is needed to reply to the administrative complaint.

Sincerely,


James H. Johnson
Director

JHJ/MG:jh

Enclosures



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1. Reliability of Data

This section responds to the comments in the complaint on Pages 7-9 dealing with data which the City has relied upon to develop a needs assessment.

In preparing the needs assessment for the Three Year Plan, the City used the most current and available information at that time. Since the City has not conducted any citywide survey of population and housing characteristics since the 1970 U. S. Census nor any mid-decade census survey, the most reliable and comprehensive source of data is the 1970 U. S. Census. The City recognized that such data may not reflect the overall current situation and has therefore supplemented these data with any other more current, reliable, and available data sources. These other sources of information include:

1. 1973 Housing Vacancy and Rent Survey, San Francisco Department of City Planning.
2. 1974 Housing Condition Study, San Francisco Department of City Planning.
3. 1976 Housing Information Report, San Francisco Department of City Planning.
4. 1976 Printout Division of Apartment and Hotel Inspection, BBI.
5. Household Money Income in 1973 and Selected Social and Economic Characteristics of Households, Current Population Reports, Consumer Income, Series D-60, No. 96, August, 1974.
6. "Revised Series 3 Projections", Housing, Jobs, and Land Uses, San Francisco Bay Region, Association of Bay Area Governments, March 15, 1978.
7. Annual Planning Information San Francisco-Oakland SMSA, San Francisco City and County, 1978-79, State of California Health and Welfare Agency, Employment Development Department, May 1978.
8. "Estimated Number of Disabled Persons Aged 16 through 64 Years as of July 1974 by Major Disabling Condition for California Counties" California State Department of Rehabilitation.
9. Supplemental Data on Number of Handicapped/Disabled Persons, submittal by San Francisco Ad Hoc Committee for the Developmentally Disabled and Handicapped, 1975.
10. "Commercial and Industrial Activity in San Francisco, Present Characteristics and Future Trends:", Report to San Francisco Department of City Planning prepared by Arthur D. Little, Inc., June 1975.

11. "Tomorrow's Manpower Needs", Volume IV, revised 1971, Bureau of Labor Statistics, U. S. Department of Labor.

In light of the fact that the 1980 U. S. Census will begin shortly, it would be a misuse of government funds to conduct any extension population and housing survey at this time.

2. Strategy for New Construction

The complainant claims that "the City's planned housing production and goals are plainly inappropriate to meet its identified needs" and questions "the City's emphasis on rehabilitation rather than new construction....." (Pages 9 and 10).

The City has always emphasized the construction of new rental units through its Community Development (CD) program. This year, in fact, the City has substantially increased its goals for the construction of new housing units for low and moderate income households in relation to total program goals. These new construction goals for 1100 new rental units, are both appropriate to meet identified needs and appropriate relative to other planned activities. They are also attainable within the program year, particularly in view of the existing framework of strategies developed in prior program years which is now being built-upon. Comprehensive strategies are well underway and the City is just beginning to bear the fruits of these efforts.

The City is well aware of the magnitude of its housing problems current housing trends, and the hardships they place on low and moderate income households. The vacancy rate for multi-unit structures is no more than 2½%, many households are living in overcrowded conditions and/or over paying for housing and, most importantly, the private sector has been producing fewer and fewer rental units. As stated in the Housing Assistance Plan (HAP), 98.4% of these in need of assistance are renters. Acknowledging these housing trends and household needs, the City has continued to increase program emphasis on construction of new rental units.

The City's comprehensive strategy, designed to facilitate increased production of housing for low and moderate income households, consists of two complementary approaches. The first is financial, in the form of various subsidies, and the second is primarily non-financial, in the form of policy changes, processing improvements and technical assistance.

Financial facilitation of housing development comes mostly from two basic sources: (1) the U. S. Department of Housing and Urban Development (HUD) Section 8 and Public Housing programs and (2) the use of CD and other grant funds. The City is now proposing to use these funds in combination because generally the ceilings on housing costs which are written into the Section 8 federal subsidy program, (the primary source of funds) are unrealistically low. This is particularly true for HUD's Section 8 program for families and frequently true for its program for the elderly and handicapped. CD funds are therefore proposed to underwrite the cost of land under certain conditions.

From the 1975 through 1978 programs, a total of \$2 million was set aside for site acquisition in the Chinatown Area for the development of low and moderate income housing. Although proposals are being prepared by the neighborhood-based housing corporation a balance of \$1,795,392 was still available from its initial allocation as of August 31, 1979. Another

\$150,000 was set aside in the 1979 CD Program for site acquisition in Bernal Heights and \$300,000 for the South of Market. While the housing development corporations have not yet committed these funds for specific projects, with the cooperation of HUD staff, close to 30 potential sites for acquisition have been evaluated for pre-approval status.

For the 1980 CD Program, the City has created a pool of \$1 million to be set aside for the continued acquisition of sites for housing developments sponsored by the housing corporations. Since this allocation is far from meeting the needs of providing sites for lower income housing development, the City plans to augment these funds with funds recaptured from previously funded but inactive program activities. The City is also exploring other means of "leveraging" additional dollars with its \$1 million pool of funds for site acquisition.

In addition, the City will continue to carry out its full responsibilities for administering the Section 8 NSA program which is in its first year of operation. This year the City has been allocated 100 Section 8 units for new construction projects in the North of Market NSA. Proposals for these units have been solicited and reviewed. The selected project is currently in processing. Present and future rehabilitation, planned for this program will also clearly add to the City's housing stock because the area contains a high percentage of vacant and deteriorated buildings.

Another form of financial subsidy which the City intends to make greater use of is tax exempt financing for residential construction and mortgage assistance. Since early last year, the Mayor's Office has been developing a mortgage revenue bond housing program and in October 1979, the Board of Supervisors passed a resolution authorizing the development of such a program. Tax exempt bonds would be used to provide mortgage money at interest rates significantly below the prevailing market rate to finance the construction of rental projects and mortgages for home buyers.

Currently, there is a debate at both national and state levels which, for the time being, has severely limited this useful tool for the production of affordable housing. The City is, however, maintaining lobbying efforts in Washington to assure that some form of tax exempt financing will continue to be available as a financial subsidy.

In an effort to increase the supply of public housing, the Housing Authority has requested that HUD approve the use of previous Modernization funds to rehabilitate vandalized and vacant public housing units. HUD has given preliminary approval to this request.

The non-financial strategies that the City has undertaken to facilitate the construction of housing for low and moderate income households are extensive. They are generally in the form of policy changes, processing improvements and provision of technical assistance.



Early last year the Mayor formed a Housing Policy Group (HPG) made up of City Department Directors and members of the Board of Supervisors who deal with housing issues. The HPG has been refining the City's housing policies and coordinated a housing symposium to identify opportunities to solve problems in the area of housing development, regulations, financing and rehabilitation. Over 350 builders, developers, financial experts, labor representatives, government officials, and citizens participated in this all-day session of workshops and panels. The HPG is now assessing the feasibility of implementing proposed solutions.

A residential rezoning study conducted this year attempts to respond to the high demand for housing in San Francisco by encouraging the conversion of under-utilized commercial space to residential uses. In this way, new housing opportunities may be found in neighborhoods with mixed residential and commercial uses. Provisions of this study will encourage housing development of lots that are classified as "non-conforming uses" within residential areas.

The City has a provision in its subdivision ordinance which requires developments of 50 or more units to set aside 10 percent of their units for low and moderate income households when subsidies are available. On June 25, 1979 this ordinance was amended to require all subdivisions of five or more units, particularly condominium developments, to include a minimum of 10 percent of their units for low and moderate income housing. In order to assure implementation of this provision, the Office of Community Development with the Department of City Planning (DCP) are now exploring a range of financing tools through the California Housing Financing Agency which is one potential subsidy for condominium developments, and another is the pool of funds developed by the condominium conversion option of payment of a fee.

Since strict interpretation of Section 8 site and neighborhood standards prevent the approval of otherwise viable assisted housing projects and since gentrification is rapidly turning around neighborhoods and causing displacement, the City has devoted a great deal of effort to obtaining special consideration from HUD of potential housing sites. The City's few large buildable sites are located in areas which HUD defines as "minority and/or low-income impacted" or in mixed use zones which HUD considers to be suitable only with prohibitively expensive mitigation measures. HUD has been very cooperative in providing special reviews of potential sites. However, the City must and will continue to encourage HUD to be even more flexible and approve viable projects in areas that the City considers to be appropriate for assisted housing.

In response to suggestions by developers, a policy was adopted by the Bureau of Building Inspection in late 1977 to allow any subsidized housing development to receive priority in processing of all of its permits upon the notification of the Superintendent of Building Inspection by OGD. In 1978, several developers stated that this priority cut their processing time in half. A study is now underway, under the director of the Mayor's Office of Economic Development, to identify all problems in the permit processing system through DPW and DCP and to propose solutions for implementation within the next year.



Finally, technical assistance is being provided to developers to encourage and facilitate the development of housing for low and moderate households. Sites for the development of new rental units have been identified and made available to developers in several efforts. In February 1979, a survey of all potential housing sites in the City, both public and privately owned, was completed by the DCP. This survey was made available for developers and is now being updated.

The Office of Community Development based on the above Housing Opportunity Site Survey, identified:

- The available vacant buildable sites in "non-impacted" areas of the City for projects of 3 or more units; and
- All potentially surplus school district property.

With each of the above sites, the approximate square footage present or proposed zoning and the approximate potential number of dwelling units that each site will accommodate were indicated. Since spring of last year, this summary has been distributed extensively to developers interested in constructing new rental units in San Francisco. OCD has also distributed information to developers and non-profit housing development corporations on the Section 8 program -- a major resource for development of new rental units and substantial rehabilitation of rental units. There have been numerous meetings on this program to which both large and small developers were invited. Finally, technical assistance has been and will continue to be provided to developers and housing development corporations in preparing and processing proposals.

The OCD and DCP has met frequently with staff and board members of the Unified School District to arrange the designation of surplus school sites for subsidized or market-rate housing. Since the sites are among the largest sites potentially available for housing non-impacted areas of the City, they have been given the highest priority. On July 10, 1979 after much negotiation, the School Board did pass a resolution authorizing the use of up to three of twelve sites for housing. OCD is now reviewing resident support of housing for these sites and planning a schedule of public hearings where assisted housing is politically feasible. Since many groups have expressed interest in these sites for a variety of uses, resolving competing community interests may prove to be a lengthy process.

At the same time, OCD, the DCP and the Real Estate Department are preparing a draft developers packet and draft request for proposals for the lease of school sites for housing development. This developers packet includes development guidelines and selection criteria which are tailored to each site. The guidelines spell out project density, the number of units to benefit low- and moderate-income households, the type of households to be served, the tenure of the development, special characteristics and other amenities. These drafts are now being reviewed by the San Francisco Unified School District staff. Following subsequent reviews by the School Board committees, the full School Board, and the City Planning Commission, proposals will be

requested. During the 1980 program year, the City hopes to generate feasible proposals for approximately 100 units of Section 8 new construction units and many more market-rate housing units. The OCD, the DCP and the Real Estate Department with various City agencies are also assessing the potential of City owned sites for housing development and preparing draft developers packets for sites where projects are feasible.

In the next year, the City will build on these strategies and continue to promote the development and maintenance of a balanced housing stock for low and moderate income households. However, in the area of new housing development, San Francisco will continue to be faced with a number of fundamental impediments primarily because of the City's age, desirability and location. The City's strategy for new construction has recognized these factors and others in developing a comprehensive strategy for housing production and will continue to increase its efforts in this direction by participation of the Citizen's Housing Task Force formed by the Rental Arbitration Board legislation.

3. Goals and Performance

The complainants raise the issue of the City's performance toward meeting its established annual and three-year goals in the 1980 Housing Assistance Plan. The particularly footnote the provisions of the federal register which call upon the city to take action when no proposals were submitted in response to a NOFA. Several of the individual complainants know in detail the efforts of the City which became more intensive during the Spring and Summer in 1979, when they were involved in proposals to HUD at the insistence of the City. These same complainants know of the on-going efforts of the City to encourage development. As a result of the increased efforts of the summer over 400 units of housing proposals were submitted. Although HUD rejected many for site location and other factors some 250 units resulted in approvals of preliminary applications. Complainants particularly criticize the goal of 1100 new rental units for 1980 as being unrealistic. That goal must reflect what could be produced if sufficient HUD resources were available. That determines what is "realistic". In this case 400 units were proposed for elderly and 700 units were proposed for family projects. The goal for elderly housing is seriously undervalued but has been reduced at HUD's request because HUD will not be able to provide the resources. Specifically, two proposals in the Western Addition, totalling 150 units, have already been submitted to HUD for preapproval; several other proposals are pending at the California Housing Finance Agency; and many others are ready to be submitted by private developers, the housing development corporations, including some of the complainants themselves. In fact the City could easily produce 800 units of elderly Section 8 housing if the funds were made available. Of the 700 family units, 300 units for Hunters Point have been prepared for submission to HUD in the next few months; several school sites producing a minimum of 100 units will be offered for development in the Spring of 1980; several smaller projects of the housing development corporations will hopefully come to fruition; and private developers are now working on projects which will produce applications for 50-75 units in the next two months. Under the rehabilitation goals from HUD programs, Inchon Village is considered; 350 Neighborhood Strategy Area units are identified. Every annual goal is backed up by actual proposals that are being worked on and expected to materialize during the year plus a small number of unaccounted for units for projects which will come forward during the year and are not known of during the preparation of the goals in August of the previous year.

Under the specific criticism of the rehabilitation goals for city programs it must be noted that each rehabilitation program activity is projected based on what is a realistic goal at the time of preparation of the HAP. It is impossible to predict all the vagaries of the political process, of the city's legislative system, the political process of the neighborhood reviews, the bond market, the willingness of lenders, etc. These goals have been substantially reduced after a re-evaluation of some of the obstacles still before the programs. The complainants here criticize how performance was reported and the fact that the time period has covered only six months when reported. This criticism should more accurately be directed at HUD since the process is dictated by their regulations.

Some revisions have been made to this reporting process but will not be totally modified until 1981.

(The City's own reporting procedures have been modified and improved recently by OCD as a result of increased staff time given to monitoring and to respond to concerns expressed by HUD and the CCCD.)

4. Rehabilitation Programs - Benefits to Low and Moderate Income Persons.

The complainants make general allegations throughout the complaint that the rehabilitation programs - Rehabilitation Assistance Program and Housing Improvement Programs do not principally benefit low and moderate income households. They often identify an individual component of a program and state categorically that the approach will not benefit low and moderate income residents.

The programs that have been developed for each neighborhood are made up of a variety of loan programs, financing mechanisms, administrative procedures and public improvements packages. Each total program is tailored for the particular needs of that neighborhood. The program as a whole is designed to serve the needs of those low and moderate income homeowners and tenants while accomplishing other goals of maintaining the housing stock. The judgment on whether a program benefits the low and moderate income households of that neighborhood can only be made after examining the combined effects of the projects within each neighborhood.

The following discussion of RAP and HIP shows how the individual characteristics of each neighborhood have determined a package of projects that is benefitting the lower income residents as applicable.

The characteristics of the North of Market neighborhood have required a concentration on providing considerable rent subsidies and low-cost housing financing to reduce the costs of rehabilitation and allow the lower-income residents to remain. At the same time public improvements and services are designed to improve the living conditions of renters and the predominantly elderly residents of the area. The following characteristics particularly shaped the program:

- 1) 60% of the residents are of low and moderate income, many of them are elderly on fixed incomes;
- 2) Nearly 13,000 of the area's 14,305 apartment and hotel units are substandard, of these, 24% require major rehabilitation work;
- 3) Of the 346 buildings in the neighborhood all but 54 have 3 or more units; and
- 4) Some buildings have substantial debt while others are owned specifically free and clear.

The programs to respond to these problems are as follows:

Section 8 Housing Assistance Payments

This rent subsidy is probably one of the most significant resources to improve housing and assist lower income tenants in the neighborhood. A special allocation of Section 8 subsidies has been reserved for the North of Market. Section 8 rehabilitation funds from 1979 will convert

a vacant hotel into 42 units of housing for the elderly. During 1980 funds are available to substantially rehabilitate another 145 units. An additional 263 units will be allocated to the North of Market over the next three years. This housing both provides a needed source of replacement housing for neighborhood residents who move because of other rehab. work, as well as the new units resulting from rehabilitation of vacant hotels and apartments.

The method of distribution of these units also benefits the overall program since the highest priority for use of the Section 8 subsidies is to go to vacant or virtually vacant buildings. Even the Section 8 existing housing program is utilized to give priority to displacees of the rehabilitation program. A small allocation of Section 8 moderate rehabilitation are also proposed for this neighborhood.

312 Loans and Marks Foran Financing

This low interest, long term loan program is available to all property owners in the neighborhood, but Owners of low and moderate income have priority for these funds. Of the \$986,000 so far guaranteed to San Francisco in 1980, Mayor Feinstein has committed \$675,000 to the North of Market. This allocation is for use in residential hotels, commercial and single family structures. Additional funds soon will be available to rehabilitate apartment houses with 5 or more units.

The 312 program does provide tenant protections against displacement. It limits the rents of any unit rehabilitated with a 312 loan and prescribes the amount of relocation assistance which the City provides to all displaced persons.

The complainant statement that the City does not focus its rehab efforts on dilapidated units is clearly not demonstrated by the City's rehabilitation policies.

The City has adopted a policy that vacant and hazardous buildings are the first of any buildings to be rehabilitated using any of its public loan funds. This policy serves to minimize displacement and provides new and improved housing units that serve as relocation resources when displacement is inevitable.

In sum, all of the rehabilitation programs used in the North of Market will directly or indirectly benefit the majority of low and moderate income residents of the neighborhood.

SB - 966

This is a new program of the California Department of Housing and Community Development. It is a deferred payment loan with an interest rate of 3.0%. It must only be repaid on the sale or transfer of the property for elderly persons or after five years for others. Repayment may be

extended beyond five years upon the request of the City. It can be combined with other financing vehicles, all property owners are eligible, and it has a maximum per unit loan amount of \$10,000 per unit.

Although a minimal amount of these funds are currently available (\$175,000 to be distributed in 5 neighborhoods) the state legislature has recently appropriated \$10,000,000 and a new allocation is expected in late 1980.

To support the code enforcement activities of RAP, CDBG funds are also committed for a program of public improvements. Continuously for the past several years some minor public improvements to streets, community centers, and gymnasiums have been made. The Department of City Planning is now, January 1980, completing a plan of public improvements which will begin in 1980 and continue throughout the life of the program. In 1980 alone over \$1,800,000 (\$1,226,500 of CDBG funds - \$600,000 of City's Open Space Acquisition) is committed to acquisition and development of Central City Park; conversion of street lights; installation of traffic signals, public toilets, community gardens, murals, yard and court landscaping, etc. Not only are physical improvement provided for community centers but social services are provided as well. A Senior Escort Program to provide security for the lower income elderly residents to move about the neighborhood was begun in 1978. In 1980, \$114,668 will continue this program in the North of Market neighborhood.

As with any large scale improvement program some displacement is anticipated in the North of Market. In 1979, \$719,680 was set-aside for special relocation payments for those tenants who will be displaced as a result of the rehabilitation of their home. As the program did not begin in full in 1979 these funds will be carried over for displacees during 1980.

Hayes Valley HIP

Complainants state on page 19 that HIP does not serve low and moderate income persons. This is clearly inaccurate as it pertains to the Hayes Valley HIP. The program's major activities will preserve the neighborhood's population mix and housing stock for persons of low and moderate income. This will be accomplished by providing owners of deteriorating single family homes (1-4 units) with financial and/or technical assistance to rehabilitate their property. The methods used were closer specifically to respond to the character of the neighborhood: *

Building Inspections

Free informational building inspections are available to owners of single and 2 family residences, generally upon the owners request. The owner is not obligated to correct any deficiencies found.

*Over 58% of the area's population is low income households. There are some 7277 units of housing in Hayes Valley located in 1327 buildings. Of these buildings about 88% (6430 units) have 3 or more units. Approximately 44% are owner-occupied.

holds qualify. For those who are between 80 and 120% of the median the CHFA programs are available. The entire program is voluntary as is the Hayes Valley program, so there will be no particular disruption or hardship caused by mandatory code-enforcement on the lower-income single family property owners.

Citywide Housing Improvement Program

Complainants are clearly in error about who will benefit from the City-wide Housing Improvement Program. The program proposal has always included the criteria that qualified applicants would be low- and-moderate income households (80% of the median or below) from throughout the city.

If rehabilitation is desired, low interest, long term loan programs are available to serve low and moderate income persons in the neighborhood.

a) CHFA Rehabilitation Loans.

As residents of a concentrated rehab. area (CRA) property owners of one to four unit structures are eligible for low interest, long term rehab loans under the Title I and HO-HI programs sponsored by the California Housing Finance Agency.

All loan recipients must be persons of low or moderate income, as defined by the income limitations established by CHFA. The program further benefits low and moderate income residents because the rents of all units rehabilitated under these programs are limited according to CHFA regulations.

b) 312 Loans

In 1980 Hayes Valley will receive, for the first time, an allocation of 312 funds. Loans will be available to rehabilitate multi family, single family buildings, and commercial structures, including residential hotels. Rent limitations are an important feature of the program to protect tenants in the units undergoing rehab. with a 312 loan.

c) Hardship Loan Program

Low income homeowners will be eligible to receive CDBG-funded deferred payment interest free loans of up to \$7,500 to pay for code repairs. CHFA and/or Section 312 loan may be used to supplement a hardship loan provided the owner otherwise qualifies for a CHFA and/or Section 312 loan.

Under all of these financing programs, relocation benefits and assistance will be available to persons displaced by the rehabilitation work.

In summary, it should be emphasized that HIP, unlike RAP is a voluntary coe enforcement program. Thus owners will not be forced to rehabilitate their building using market rate loan money when lower cost funds are available. Consequently, HIP should not have significant impact on the rents of lower-income residents.

The Upper Ashbury Rehabilitation Assistance Program is no longer characterized as benefitting low and moderate income households. It is identified as removing slums and blight. However, the benefits built into the program from its inception still serve the low and moderate income families of the neighborhood. The hardship loans, rent limitation agreements and inspection procedures are still in effect and both directly and indirectly serve the needs of lower-income households.

The Bayview Housing Improvement Program (HIP) is most certainly the clearest identification of a program which benefits low-and-moderate income families. It is clear from all the data that the area is predominantly single-family homes and they are owned by lower-income families. The CDBG funds will be used to give deferred payment hardship loans and only lower-income house-

5. The City's Displacement Strategy

The complainant claims that "the City has failed to take appropriate steps to mitigate displacement and other hardships imposed on lower income people by the rehabilitation programs".

In the past few years, all major cities in the country have been experiencing some degree of gentrification. While some cities may see this as a positive force providing stability and security to the tax base, all cities can see the damaging effects of the resulting displacement on their existing residents. Although this problem appears to be of national proportions, cities have been attempting to provide individual solutions for their particular housing markets.

In San Francisco, during the past six months, ordinances have been adopted which deal with the effects of gentrification - inordinate rent increases and loss of rental units through their conversion to other uses. Of course, the City recognizes that these are only symptoms of the larger problem of inadequate housing supply which is addressed by a comprehensive New Construction Strategy. The most significant ordinance resulted in the adoption of a Rental Arbitration Board. This form of rent control established percentages for allowable rent increases in one year. Larger rent increases have to be justified. Although the provisions of the ordinance have been in effect since June, the Rental Arbitration Board has only been fully operational since October.

Another important feature of this ordinance is the establishment of a Citizen's Housing Task Force to make recommendations for improvements to this ordinance as well as to the City's housing programs and policies. The Rental Arbitration Board ordinance was specifically designed to prevent the displacement that occurs as the result of inordinate rent increases.

The loss of rental units through their conversion into condominium units is another symptom of a tight housing market that the City is now regulating, particularly to protect the loss of rental units and hopefully spur some production of new units. A summary of the provisions of this ordinance, which applies to all subdivisions is described below.

To preserve and expand the supply of low and moderately priced rental and ownership housing the subdivider of buildings with five or more units is required to provide 10 percent of the units for rental or purchase by low or moderate income households. The subdividers alternatives are to (a) include these units in the proposed conversion building and/or (b) construct new low and moderate income units totalling 10 percent of the units proposed for conversion; and/or, (c) pay into a City development/loan pool a cash amount equal to 10 percent of the difference between the aggregate market rate value of the units and the aggregate value if all the units are sold at moderate income prices.

This pool of funds is to be used for:

1. Down-payment assistance to expand homeownership opportunities for low and moderate income persons;
2. Facilitating new construction of low and moderate income housing;
3. Mortgage interest subsidy program for qualified low and moderate income households; and
4. Providing loan guarantees for below market interest mortgage loan from private lenders.

As this ordinance has only recently gone into effect and developers and converters are just beginning to avail themselves of the new regulations procedures the ultimate effects of the ordinance can not be described. One thing is for certain though, the rate at which requests for condominium conversions has diminished dramatically.

The City is also two months into a six-month moratorium on conversion of residential hotels to transient hotels and on the demolition of residential hotels. After witnessing the loss of these units and the resulting displacement the City adopted an ordinance to prohibit the loss of these residential units. The Department of City Planning has been charged with the responsibility to develop permanent control over these conversions and demolitions.

Another effective City policy is to carefully phase rehabilitation activities within designated areas in order to reduce the number or extent of displacement; vacant buildings and buildings with low occupancy rates are rehabilitated first so as to provide standard relocation housing units within the neighborhood. Housing Code enforcement activities of a given building are carefully scheduled to avoid strong and immediate negative impacts such as rent increases and displacement of tenants in the neighborhood. The use of loan funds is carefully administered so that the property improvements do not produce rent increases in excess of the financial ability of the existing tenants to pay or artificially change the economic composition of the neighborhood's residents.

The complainant claims that while the City's Community Housing Strategy enumerates four mitigation measures which the City utilizes, these measures are patently inadequate. (Pages 25 and 26)

The first mitigation measure challenged is the use of Section 8 Housing Assistance payments. The City will continue this mitigation measure and has in fact, increased the use of the Section 8 programs. Priority will continue to be given for these subsidized units and subsidies to lower income tenants affected by rehabilitation loan programs. Section 8 assistance is provided where substantial rent increases are unavoidable or to enable displaced tenants to relocate within their present neighborhoods.

A comprehensive and effective rehabilitation program includes two types of assistance: rehabilitation loans of favorable terms and housing assistance payments to make units available for the lower income households. The Section 8 Housing Assistance Payments Program remains the only resource of rent subsidies. The Department of Housing and Urban Development has made some revisions to the program which respond to requests made by San Francisco over three years ago. The most significant change is that Section 8 Substantial Rehabilitation Special Procedures Program which assign Section 8 units directly to a Neighborhood Strategy Area with a concentrated rehabilitation program. This additional resource is available to effectively prevent displacement of lower income tenants by subsidizing the payments of increased rents resulting from rehabilitation of the units. In the cases where units have to be removed, this Special Section 8 allocation could assist the tenants in renting other rehabilitated units within the neighborhood.

The Section 8 Existing Housing Program is also used to assist eligible households displaced or about to be displaced as a result of concentrated rehabilitation activities. While the approach to that the City pursued, that of assigning a certain number of these units to designated rehabilitation areas, has been determined to be illegal by HUD, this assistance is still available to reduce displacement. Priority is given to households that are displaced for relocation within their neighborhoods wherever possible. The San Francisco Housing Authority administers this program and to date, their performance has certainly been adequate. There are now approximately 800 rental units subsidized with Section 8 Existing Housing Assistance.

The complainant makes a broad statement regarding the availability and processing of relocation assistance yet does not provide any evidence as support. In actual fact, the availability of relocation assistance is well advertised and its provision is efficiently processed. It is a City policy to provide relocation assistance and benefits to all eligible persons in conformance with existing Federal, State and local regulations. Provisions governing referrals and claim processing are set forth in these regulations. Housing assistance payments are provided for all households directly displaced by CD funded activities, although not required under the enabling legislation. Actually, relocation assistance is available to all eligible tenants in the designated rehabilitation areas, not just RAP areas. Tenants are eligible for relocation benefits if they are forced to move due to extensive rehabilitation for code compliance or if their rent is increased 10 percent or more due to code compliance costs.

The Central Relocation Services Office assists households to locate replacement units within their present neighborhoods. Moreover, referrals are made to housing unit that are (1) considered to be decent, safe and sanitary (as defined in applicable City building codes) and (2) within the displacees rent paying ability.

Information regarding available assistance is discussed at public meetings. Additionally, annual mailings are made to all owners and tenants within the project area advising of provisions for relocation assistance. Rehabilitation Assistance Program's Community Liaison Officer (CLO), prior to displacement, reviews with the prospective displacee the conditions of eligibility and describes the various types of benefits available. The displacee is then put in touch with Central Relocation Services (CRS) who is responsible for providing referrals and administering relocation benefits. Relocation claims are generally forwarded for processing within 15 days after all the required documentation is received from the displacee.

The final point that the complainant raised regarding displacement is that the measure "involving monitoring the limited Rent Stabilization Guidelines" does not mitigate displacement. This claim is patently false. Clearly, the provision of relocation benefits and staff assistance lessens the negative effects of displacement or relocation. Moreover, the use of City monitored rehabilitation financing with rent limitation requirements helps to keep rent increases down. Rent increases in code enforcement areas are approximately the same, if not smaller, than increases in the City as a whole. In order to tighten this monitoring, the OCD and BBI are currently preparing uniform forms for reporting rents paid by prior to and after rehabilitation.

There have been surveys by the Department of City Planning relative to the speculation and rent increases in the FACE areas which are similar to RAP areas. The City Planning study indicates that both the number of sales and dollar amounts are less in areas where a code enforcement program has been completed than in an adjoining area with no program. Surveys of 4 FACE areas showed that rent increases in FACE areas were less than those citywide. Citywide increases were 7.4 percent per year, while FACE area increases were 4.5 percent per year between 1966 and 1971.

A later study covering the period 1970 to 1971 found FACE area increases ranged from 7 percent per year to slightly over 10 percent. San Francisco area wide rents rose 9 percent per year. Seventy-six percent of tenants in buildings rehabilitated with RAP loans are below moderate income level. In the Inner Richmond area where nearly all buildings have been inspected, 21 tenants have requested relocation or about 1 percent of inspected dwelling units. In Upper Ashbury, 61 have requested relocation or about 3 percent of inspected dwelling units. Unlike FACE, where only extensive rehabilitation qualifies residents for relocation assistance, RAP area tenants below moderate income levels qualify for relocation assistance where there is extensive rehab or when rent increases in rehabed buildings exceed 10 percent. Relocations are below that experienced in FACE areas - 4.65 percent over 10 years.

6. Western Addition and Hunters Point

The basis for this portion of the complaint appears to be at variance with the will of the Congress expressed in the Housing Act of 1974 as amended and as elaborated in the administrative regulations established by HUD.

The regulations say (C.F.R. 570.302(b)(1) that all projects and activities must either principally benefit low-and-moderate income persons, or prevent or eliminate slums and blight, or meet other community development needs having a particular urgency (Sec. 104(b)(2) of the Act).

C.F.R. Sec. 507.302(b) says that the program as a whole shall principally benefit low-and-moderate income persons and is supplemented with (b) (3) that programs in which at least 75% of the funds are budgeted for projects defined as principally benefitting lower-income persons shall be presumed to meet this requirement.

The problem then becomes discovering the meaning of "principally benefitting lower income persons". HUD's interpretation is set forth in the Federal Register of Wednesday, March 1, 1978, Volume 43, No. 41, Part VI, DHUD CDBG Program Entitlement Grants, page 8452 last paragraph Column 2, ... "We could not agree that projects that benefit low-and-moderate income persons should be limited to projects which provide direct benefits to such persons. Directo benefits consist of rehabilitation financing and public services. It is noted that many lower-income persons could not afford to repay loans or pay increased rents, although lower income homeowners may benefit from direct grants and, therefore, could not directly benefit from most rehabilitation programs. Public services are limited by the Act to areas where physical development activities are being carried out in a concentrated manner ... As a practical matter, it is, therefore, generally not possible to use the block grant program exclusively for provision of benefits directly to lower income individuals. Furthermore, restricting local programming in such fashion would effectively prevent cities from providing needed facilities such as neighborhood facilities, pools, playgrounds, to the majority of lower-income persons, since some higher-income persons might also benefit".

In light of the above, the following comments are made:

IV B Pages 27, 28 and 29 re Western Addition A-2 and Hunters Point Project funding. It is necessary to look at total programs rather than annual funding to evaluate benefits to lower-income persons (see HUD statement above).

Using new housing production as a measure: in Western Addition A-2, 70% of the projected total and 90% of the completed housing directly benefits lower-income persons; in Hunters Point, 83% of the projected housing total and 100% of the completed housing directly benefits lower-income persons. And, this production has been rental or cooperative housing to date.

In regard to other activities, i.e. acquisition, site improvements, etc., these activities directly address and are essential to the total project goals including the production of housing noted above and are eligible in accordance with HUD's statement.

IV B Page 29 re: 300 units in Hunters Point and impactation. HUD has addressed the matter of impactation in the Hunters Point Redevelopment Area and concurs in the programmed blend of assisted and market-rate housing production. Thus, no reduction in the approved allocations is likely to occur.

Footnote Page 29 re: SFRA rehabilitation programs eligibility. See HUD statement above.

Last paragraph page 29 re: "high administration cost". Redevelopment Agency does not directly build housing, but does use its funds to leverage private investment in housing, both subsidized and market rate; therefore, "overhead" costs are efficient in terms of per unit cost of housing produced as against direct expenditures of CDBG funds for such production.

Page 30 - Redevelopment Agency 1980 allocations for rehab are based on a projection of starts - completions of 1,774 units*. Actual projections are: Start 320 units and completion of previously started units about 200 for a total of 520 for the budget year.

VII 2-b Page 56 - Market rate housing is part of overall programs and does benefit lower-income persons per HUD interpretation.

VII 2-c Page 56 - Only in projects improvements is CDBG money being used for what would otherwise be City expenditures. Also, as indicated earlier, this activity is essential to the total project goals and eligible in accordance with HUD's statement.

VII 2-e(iv) Page 57 - Redevelopment Agency has focused on dilapidated units to bring them to habitable conditions under City and State housing and health codes.

(v) Page 57 - Redevelopment Agency loan program has rent and anti-speculation provisions.

(vi) Page 58 - Redevelopment Agency established lower interest loan program, in house rehab for condo sales to lower-income households, sweat equity program.

(vii) Page 58 - Conversion of Martin Luther King, Jr., and Marcus Garvy MPPH to coop for lower-income tenants to move into ownership.

(viii) Page 58 - See HUD statement on otherwise benefitting lower-income persons.

VII (f) Fillmore Center - Urban design and marketing program designed to permit participation in development by community-based developers has been completed. Construction to begin shortly on a parcel at Turk and Eddy Streets under Land Disposition Agreement. Parcel at O'Farrell and Webster under grant of exclusive negotiating rights to community development corporation. Informal contacts with other potential developers are frequent and formal relations are to be established early in 1980 CDBG year.

* Jim Johnson's letter to Board of Supervisors, 10/5/79, cited.

7. Yerba Buena Center

The complaint attempts to prove that eligibility of Yerba Buena Center expenditures must meet requirements of benefit to low and moderate income persons and as an economic development project.

Our response, in essence, is that the project activities are eligible for funding without regard to either of the two stated tests because of the project's eligibility under elimination of slums and blight and because the activities are, in fact, within the category of activities preapproved for inclusion in the project. Specific comments are as follows:

- IV C Pages 31-32. Complaint is made that funding may be inappropriately allocated to the marketing activity in YBC because it supports low and moderate housing production when in fact the Redevelopment Agency is not producing the housing. Remedy requested is that HUD review the YBC funding request to assure that this is not the case.

RESPONSE: YBC's funding has not been justified on the basis of eligibility stemming from its benefit to low and moderate income persons. It is a Title I project eligible for funding because of its effect on slums and blight. It does benefit low and moderate income persons but this fact has not been relied on in the request for funding. For example, 100% of the housing built in YBC directly benefits lower income persons. The Redevelopment Agency has never claimed that it builds housing but it does provide the sites and supporting facilities, without which, the housing would not be built.

- V 2 Pages 42-45. Complaint is that allocation of \$583,198 to YBC should be justified as a economic development project and subject to economic development regulations.

RESPONSE: This argument was the basis of a "comment" made last year by the complainants. The Agency has asserted and HUD has acknowledged and responded to the Lawyers' Committee that the project activity is eligible for funding on the basis of elimination of slums and blight.

- V 2 Pages 42-43. The complaint questions whether the component activities in YBC's budget are included in the pre-existing HUD urban renewal financing contract.

RESPONSE: The component activities are included within the categories of eligible project activities in the Redevelopment Agency's latest approved budget and financing plan.

8. Northeast Waterfront

The Northeast Waterfront Project which is referred to in Section VI D (Pages 32-36), Section V 4 (Pages 52-54), and Section VII 3(e) (Pages 61-62) of the complaint is questioned by the complainants in three areas summarized for clarity as follows:

1. Is this project eligible under the category of "prevention or elimination of slums or blight?"
2. How is this project to be staged and/or scheduled?
3. What type of project is this effort to be?

Each of these questions are individually responded to below:

1. Eligibility: The geographic area in which this project is located does meet the requirements of Section 570.302 (e) (1), in that the area does meet the California Community Redevelopment Law criteria as a blighted, deteriorated, or deteriorating area.
2. Staging and Scheduling: It is now anticipated that a redevelopment plan for the Project area will be adopted by the Board of Supervisors in mid-September 1980. Project implementation activities will begin shortly thereafter. The redevelopment effort is proposed to be a 7 to 10 years undertaking with funding coming from a variety of grant programs, such as: Urban Development Action Grants; Land and Water Conservation; Community Development Block Grants; and the Economic Development Administration.

During the 1979 Community Development Program Year, \$414,064 were allocated to this Project. These funds are for: (1) completion of detailed survey and planning activities; (2) preparation of a redevelopment plan, a report on the redevelopment plan, and an environmental impact report/statement; (3) conduct preliminary land reuse appraisals; and (4) procedures for conducting official public hearings and securing official adoption of the redevelopment plan.

Even though no funds were indicated in the Three Year Project Summary of the 1979-80 Application, the City is desirous of amending the Three Year Project Summary to include future Community Development Block funding for the Northeast Waterfront Project and to include the project in a Neighborhood Strategy Area.

3. Type of Project: The basic objective of the Northeast Waterfront Project is to create approximately 2600 new housing units for the City of San Francisco. Twenty percent of these units are targeted for lower income household through the Section 8 Program. However, the program for development does include other activities to support and compliment the new housing units. These activities include such things as support commercial, a small amount of office space, a working marina, a hotel, and a limited amount of commercial recreation. It should be noted that the activities listed above do not alter the basic objective of the project - that of producing housing, but that they are in fact to strengthen and compliment the new residential community.

9. CD Budget for Economic Development

On Pages 38-40 the complainants seek clarification between budget data presented in the 1980 CD Application (November 1979) and the 1980 CD Proposed Program (September 1979). It should be pointed out that the latter document was the Mayor's Final Proposal as submitted to the Board of Supervisors on September 5, 1979 and the former reflected changes to program component activities approved by the Board of Supervisors on October 22, 1979 and subsequently transmitted by application to HUD on November 8, 1979.

The following table identifies the current budget amount and should clarify the two sets of figures set forth on Page 39 of the complaint:

Bayview Industrial Development		\$ 1,016,074
Acquisition for Economic Develop.	\$ 405,600	
Public Facilities	385,000	
Comm. & Ind. Facilities	191,474	
Relocation Benefits	34,000	
Yerba Buena Center		583,198
Neighborhood Commercial Improvements		300,000
SBA 502 Local Match		370,000
Local Development Corporations		368,000
Fillmore Econ. Develop. Corp.	\$ 66,000	
Bayview Hunters Point LDC	40,000	
Asian, Inc.	170,000	
Mission Econ. Develop. Corp.	92,000	
TOTAL		<u>\$ 2,637,272</u>

In like manner as funds have been set aside for administrative purposes to the Mayor's Office of Community Development, Department of City Planning and other city agencies, \$200,000 has been set aside for the Mayor's Economic Development Council for administrative support to Neighborhood Commercial Improvements, Urban Development Action Grants, and the SBA 502 Loan Program. Although the complainant on Page 40 makes a point of not finding the location of these funds in the Cost Summary, later, on Page 46, the complainant has found the funds in "General Administration".

It should be pointed out that the San Francisco Lawyer's Committee for Urban Affairs is represented on the Citizens Committee on Community Development, and therefore, has ready access to all program reports and documents, and the opportunity to participate in all deliberations and resolutions entertained by the Committee regarding the preparation of each annual Community Development Program.

10. Mayor's Economic Development Council

On pages 46-52 the complainants criticize the allocation of \$200,000 to the Mayor's Economic Development Council (EDC) to provide for support services in the administration of neighborhood commercial improvements and the SBA 502 Loan Program, and the preparation of Urban Development Action Grant applications. (In the Application as submitted to HUD for review, administrative support for the Central Waterfront Project has been dropped.) Given the nature of these services the City has identified this activity under "General Administration" in the Application's Cost Summary.

As identified in the City's CD Expenditure Schedules the \$200,000 total for EDC administration is divided \$70,000 for Neighborhood Commercial Improvements, \$104,000 for the SBA 502 Loan Program and \$26,000 for Urban Development Action Grants.

In response to complainant's comments on pages 47-48 regarding neighborhood commercial revitalization, EDC will assist merchants and businesses on those commercial strips which are targeted for site improvements and special loan programs in the 1980 CD Application. They include Bayview-Third Street, Project Dolores-Sixteenth Street, Hayes Valley-Divisadero Street, Ross Alley-Chinatown and Sixth Street-South of Market.

EDC efforts in these areas are directed at attempting to assist merchants to increase their business, so they will not go out of business. Generally, these neighborhoods have a history of deterioration due to sub-standard stores, poor inventory, and lack of essential services. EDC staff will work with merchants in an attempt to retain those that are there and to attract new merchants in order to revitalize these commercial areas.

In response to complainant's comments on pages 48-49 regarding the business revitalization loan program, EDC plays an important role in administering the local injection portion of the Section 502 Loan Package and assisting in the actual preparation of loan packages. The local development corporations (LDC's) form an integral part of the program. Theoretically they could operate on their own; in practice they have not. Much effort is needed to package the 502 loans because they are complicated, precise in execution and take an enormous amount of paper work.

The EDC works with the LDC's in placing 502 loans. The LDC's can and do act as an outreach and, sometimes, packagers. In most instances the LDC's do not have the skills to negotiate the loans, work with the banks and do the packaging. These skills should be developed and the EDC hopes to assist in this development.

Importantly, the City has established the EDC in order to control and properly use CDBG funds for local injection. There is another substantial benefit in having the EDC handle 502 loans--this program is one of the financial "tools" available to the EDC that make up a spectrum of economic assistance running the gamut from EDA guarantees in the millions of dollars

SBA 7(a) direct loans. Without 502 capacity, it would be impossible to provide the service to small businesses that is expected of EDC.

In regard to the comment on page 48 regarding Urban Development Action Grant, EDC has responsibility for the preparation of such applications. There is no duplication of administrative services.

11. Bayview Industrial Triangle

On pages 40-42 the complaint questions the eligibility of the Bayview Industrial Triangle Project on the basis that the application does not sufficiently address the project's relationship to the City's overall economic development or generation of permanent industrial jobs to low and moderate income persons.

In response the Bayview Industrial Triangle Project which is a component set of activities within the Bayview Hunters Point NSA is an eligible activity benefitting low and moderate income residents. It is essentially a rehabilitation endeavor which will in addition, provide economic benefits including opportunity for expansion of existing industrial properties and development of new industries.

This project is an integral part of the overall long-range economic development of the City's eastern shoreline. More specifically, it is designed to eliminate blighted conditions adjacent to the India Basin Industrial Park and the City's Wastewater Treatment Facility, as well as to promote commercial development in the Third Street shopping strip south of the project area.

The Redevelopment Plan will emphasize preference for labor-intensive industries in response to offerings for development in the Bayview Industrial Triangle. However, the types of response will be dictated in the market place. In the absence of quantitative goals, the Redevelopment Agency will apply standards such as those in use in India Basin where developers are required to provide 20 jobs per acre. Developers also will be required to participate in the Neighborhood Employment Program, giving first priority for all new or subsequent employment opportunity to qualified NSA residents.



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

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FEB 12 1980

FEB 14 1980

IN REPLY REFER TO

PLR

9.3CM-C

Office of Community Development

Ms. Marcia Rosen
Assistant Director
San Francisco Lawyer's Committee
for Urban Affairs
625 Market, Suite 1208
San Francisco, CA 94105

DOCUMENTS DEPT.

MAR 11 1980

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Dear Ms. Rosen:

Subject: Reply to Administrative Complaint
City of San Francisco's FY '80 CDBG Program

During our review of the City of San Francisco's 1980 Community Development Block Grant Program, we considered the issues and information presented in the San Francisco Block Grant Compliance Coalition's Administrative Complaint. We also considered the information provided at the meeting of January 11, 1980 with representatives of the San Francisco Block Grant Coalition and the San Francisco Lawyer's Committee for Urban Affairs.

As was indicated at that meeting, HUD's review of a grantee's block grant application is limited to those matters set forth in Section 570.311 of the CDBG Regulations.

Based upon our review of the City's application, as reviewed, and the City's performance during the past year, we have concluded that the City's program meets the applicable requirements and as a whole principally benefits low and moderate income persons, and with the exception of the projects conditionally approved, the individual projects and activities are eligible, meet program benefit requirements, and are not plainly inappropriate to meet identified needs. However, as indicated in our letter approving the City's FY '80 application, a recent letter covering the City's performance during the past year (copy enclosed), and our reply to the Administrative Complaint (copy enclosed) we share many of the concerns that were in the Administrative Complaint regarding the degree to which program activities, especially rehabilitation, are benefitting low and moderate income persons and the provision of assisted housing.

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Ms. Marcia Rosen

Page 2

In recent letters to the City and meetings with the staff of the Mayor's Office of Community Development, we have made several recommendations to the City on ways to increase the level of housing assistance being provided to low and moderate income persons. The City is to reply by April 1 to our recommendations and our request for a strategy for ensuring that a greater number of the beneficiaries of its rehabilitation activities are low and moderate income persons.

Because of HUD's concern about the effect that neighborhood revitalization activities can have on low and moderate income persons, the Department has provided funding to Berkeley Planning Associates to work with the City in developing a CDBG revitalization strategy which minimizes residential displacement. The City is also concerned with this issue and has hired a firm to assess its housing finance programs.

We appreciate the Lawyer's Committee and the San Francisco Block Grant Compliance Coalition's interest in the City's CDBG Program. In our reply to the comments submitted last year by the Lawyer's Committee, we encouraged the Lawyer's Committee to continue to involve itself in the planning, implementation and assessment of the City's CDBG Program. We are pleased to note that the Lawyer's Committee has continued to involve itself in the CDBG Program through the Citizens Advisory Committee and providing assistance to neighborhood organizations.

Should you wish to discuss further the enclosed reply to the Administrative Complaint, please contact Steven Sachs of my staff.

Sincerely,
Original signed by:
Henry Dishroom

Henry Dishroom
Area Manager

cc:
Honorable Dianne Feinstein
Mayor, City of San Francisco

✓ Mr. James Johnson
Director, Mayor's Office of Community Development

Mr. Michael Traynor
Member, San Francisco Lawyer's Committee for
Urban Affairs

REPLY TO ADMINISTRATIVE COMPLAINT FILED BY THE SAN FRANCISCO BLOCK
GRANT COMPLIANCE COALITION

The complaint filed by the San Francisco Block Grant Compliance Coalition challenges the City of San Francisco's 1980 CDBG Application on the grounds that:

1. The City grossly overestimates the benefit to low and moderate income persons.
2. The City's description of needs and objectives is plainly inconsistent with available facts and data.
3. The City's HAP goals are inadequate in that they fail to adequately address renter housing needs.
4. The economic development activities proposed for funding do not result in permanent job opportunities for low and moderate income persons.
5. The lack of progress in meeting housing goals calls into question whether the City has the capacity to carry out certain housing related activities.
6. Rehabilitation programs are inappropriate.

For ease of presentation the format of this reply follows the order of issues and concerns raised in the Relief Section of the Administrative Complaint. Other pertinent issues raised in the body of the complaint are addressed either in the reply to relief requested or at the end under 5. Other Pertinent Issues Raised.

1. Housing Assistance Plan

(a) Update Needs Assessment

The needs assessment submitted in FY '79 with the City's Three Year Community Development and Housing Plan was found to be consistent with generally available information. EMAD has found the needs which are based upon the 1970 Census to be appropriate since the Census is considered to be the most comprehensive survey available. On page 7 of the instructions for preparing a HAP for entitlement communities it is stated that needs estimates generally shall be derived from Federal Census data.

The City, however, will be required per Section 570.304 of the CDBG Regulations to submit updated needs assessments with its next Three Year Community Development and Housing Plan which will be submitted in FY '82. This needs assessment will include data obtained from the 1980 Census.

(b) Revise Housing Goals and Objectives

It should be pointed out that based upon a review of the City's performance in rehabilitation last year and anticipated HUD housing resources in FY '81 the City was advised (see letter of December 21, 1979) that its Three Year and FY '80 annual HAP goals would have to be revised to more accurately reflect anticipated new construction, rehabilitation, and rent subsidies resources and past performance with respect to rehabilitation. The revised goals while ambitious, given anticipated resources, have been found to be appropriate.

The proportion of rehabilitation units is higher than the proportion of new construction because there are other funds available in addition to HUD funds for rehabilitating units, while HUD is the major source of funding for assisted new rental units. The City, however, has been requested to emphasize the rehabilitation of the most severe and vacant units and the conversion of non-residential structures to residential use as a way of increasing the supply of housing for low and moderate income persons through rehabilitation efforts.

Other actions we recommended to the City to take in order to increase the number of new assisted rental units for low and moderate income households are:

1. Increase the percentage of low and moderate housing units in the Northeast Waterfront Area from the currently planned 20%.
2. Acquire from the School District for low and moderate income housing more than the currently planned three sites.
3. Use additionally allocated CDBG entitlement funds and available reprogrammed funds to assist in making projects financially feasible.

(c) Reasonable and Realistic Schedule for New Construction

During the past year on several occasions we advised the City that it needed to take steps in advance of new construction funds being made available so that when these funds did become available to the City they could be utilized. The City has begun to take steps that will enable it to use new construction resources when they become available. The City and HUD have already agreed upon a strategy on how expected FY '80 housing resources will be utilized. Three hundred family units are proposed for development in Hunters Point, 200 new family units are proposed for construction in "non-impacted" areas, and 150 elderly units are proposed for development on sites in the Western Addition. With respect to the 200 units in "non-impacted" areas, the City has already begun working on identifying and gaining control of these sites. Continued effort on the part of the City as evidence by actions during the past six to eight months should ensure the reservations of units within a timely fashion.

Based upon past reservations ⁷⁹⁶ units of HUD assisted new construction and 900 units of HUD assisted rehabilitation are planned to be occupied during FY '80 and early FY '81. These figures are based on projects now under construction or rehabilitation. Funds have been reserved for an additional 1100 units.

It should be noted that the units projected in the City's FY '80 annual HAP Goal represent units that the City expects to be funded with FY '81 housing funds. Actual construction with these funds would not be expected to take place until 1982.

2. Specific Housing Programs

- (a) Disallow funding for RAP, HIP, Citywide HIP, Section 312 and Marks-Foran. A review of the CDBG funds to be spent on RAP, HIP, Citywide HIP, Section 312 and Marks-Foran rehabilitation has resulted in finding these activities eligible. With respect to the City's Citywide HIP Program, the City has stated (see letter of January 4, 1980) that the criteria for receiving a Citywide HIP loan is that the

applicant must have an income of 80% or less of the median income for the San Francisco/ Oakland SMSA. It should also be noted that HIP is not, as stated in the Complaint on Pages 26 and 27, a code enforcement program as defined under Section 570.202(e). HIP is a voluntary rehabilitation program under which homes are brought up to local code. This activity is eligible under 570.202(c). We have, however, expressed concern to the City that priority use of these funds be used to benefit low and moderate income persons.

- (b) Disallow funding for market rate housing in Western Addition, Hunters Point, YBC and the Northeast Waterfront.

The funds to be provided to the San Francisco Redevelopment Agency to carry out activities in the above four areas do not include funds to pay for the actual construction of market rate housing. In Western Addition, funds in FY '80 will be used to rehabilitate private properties, public housing projects, recreation facilities and neighborhood centers; acquire and dispose of Agency-owned property for use in conformance with the approved urban renewal plan; provide public services; provide funds for SBA loans and for administrative expenses.

When making a judgment on whether a project principally benefits low and moderate income persons, the entire project is considered not just specific activities. It has been determined that the Western Addition NSA Program, which includes the Western Addition Redevelopment Project, will principally benefit low and moderate income persons. The overwhelming population of this area is of low and moderate income. The Redevelopment Plan for this area has always included market rate housing as a means of bringing about some economic integration in to the neighborhood. The reason market rate housing is being produced towards the end of this project is that developers of the always planned market rate housing would not proceed until they saw evidence that the area was being revitalized and expenditures of their funds on market rate housing was a feasible economic investment.

As in Western Addition, the HUD approved plan for the Hunters Point Redevelopment Area included the development of market rate housing. In FY '1980, the Agency plans to start construction on the last 300 units of assisted housing to be built in the areas and on the 213 units of market rate housing to be constructed in Phase III of the Redevelopment Area.

Based on the fact that the overwhelming number of new units in both these projects are for low and moderate income persons and the substantial majority of the residents in the area before, during and after project completion will be low and moderate incomes, we find these two projects meet the program benefit requirements of principally benefitting low and moderate income persons as set forth in Section 570.302(d)(2)(i).

With respect to YBC, this project meets the program benefit requirements under Section 570.302(e)(3), as activities necessary to complete urban renewal projects which do not principally benefit low and moderate income persons. We do not find that the construction of market rate housing with non-CDBG funds in this area, which already contains over 646 units of assisted elderly housing, (another 147 units are under construction and 365 are planned) to be inappropriate.

As is stated later in this reply (see Economic Development 3e) acceptance of the Northeastern Waterfront area as an NSA is pending submission of additional information. As in the case of YBC, the City has certified this project as meeting the program benefit requirements of preventing or eliminating slums or blight (Section 570.302(e)(1)) and not as a project that principally benefits low and moderate income persons (Section 570.302(d)). We are, however, suggesting to the City in light of its housing goal for new assisted construction and the small number of available housing sites, that it consider increasing the percentage of assisted units in this project from the planned 20%.

- (c) SFRA and BBI activities supplant rather than supplement City-funded activities.

Our review of the activities to be undertaken by the San Francisco Redevelopment Agency and the Bureau of Building Inspection did not result in a finding that they supplant rather than supplement City funded activities. It is our understanding that when an area is designated a RAP area, the BBI staff working in the area is transferred to work in other areas of the City and the RAP funded staff handles all code enforcement activities in the RAP area. Thus, there is no substantial reduction in the amount of local financial support for community development activities, nor are they below the level of support prior to the start of the RAP Program, rather, City funded staff are assigned to work in other parts of the City.

Last year in our monitoring letter we questioned whether the RAP program was effectively utilizing the resources it had spent. This observation was based on the ratio between the number of loans, the number of personnel and the amount of administrative expense that was lower than the generally accepted norm. During our most recent monitoring the ratio between rehabilitation activity and staffing no longer appears to be a problem.

- (d) Reprogram ineligible housing funds to other eligible housing funds.

The Area Office's review of the City's FY '80 application did not find any of the housing related activities to be ineligible. We did, however, advise the City in a letter dated January 7, 1980, that the \$1.8 million in increased entitlement funds should be allocated for housing related activities. We will also advise the City that any previously granted funds that become available for reprogramming should also be used for housing related activities which principally benefit low and moderate income persons.

- (e) Redesign Rehabilitation Programs

We too have concerns about the City's rehabilitation efforts, especially with respect to principal benefit to low and moderate income persons.

In recent discussions with the City we have raised this concern. In our letter approving the City's FY '80 application we advised the City that its rehabilitation activities need to be reviewed and steps should be taken to increase the number of low and moderate income persons benefitting from this activity.

Suggested actions that were recommended to the City are:

1. Review the effect of rehabilitation costs on rents and, where necessary, provide greater subsidies in order to ensure that rents after rehabilitation are within the rent paying ability of low and moderate income tenants.
2. Give priority to rehabilitating the most severe and vacant units and to converting non-residential structures into residential structures before rehabilitating units with minor deficiencies.
3. Continue to explore the feasibility of controlling the rents of buildings after rehab as a way of ensuring that units remain affordable to low and moderate income persons.
4. Develop a strategy for coordinating the City's systematic code enforcement program in the Inner Mission, Chinatown and Hayes Valley area with CDBG assisted and other rehab programs.

During a recent visit to the City we saw a copy of the form that will be used to collect the data we requested in a previous monitoring letter. The City has been requested to submit this report to HUD monthly. The information contained in the report will be used to monitor program benefit and progress in meeting rehab goals.

(f) Rent and Purchase Price Data

The City's new reporting form will contain this information and will be reviewed by HUD.

(g) Refuse to permit additional NSA/NIAs

No new NIAs are proposed in the City's FY '80 application.

One new NSA (Northeast Waterfront) is proposed. Until the City designates this area as being blighted and the required revisions to the City's Comprehensive Strategy and Three Year Project Summary are submitted, this area will not receive NSA designation and the project will be conditionally approved. This conditional approval will not preclude the City from expending CDBG funds on related administrative and planning activities.

In 1979 we withheld designation of the Hayes Valley as an NSA. After reviewing the information contained in the City's FY '80 application we have determined that this area still does not, at this time, meet the qualifications for an NSA.

Economic Development Programs

a. Identification all economic development program

Our review of the City's FY '80 application indicates that all activities including economic development activities to be funded with CDBG funds were correctly identified in either the City's original application or in revisions that were submitted. Information needed by HUD to make its determination with respect to activities eligible under Section 570.203 was included in the City FY 79 Three Year Community Development and Housing Plan.

b. Disallow funding of the Bayview North Project

We have determined that activities to be undertaken as part of the Bayview Industrial Triangle Project, which is a component of the Bayview Hunters Point NSA Program, are eligible under Section 570.203(a)(b) and (c), and are not inconsistent with the City's economic development strategy included in the City's FY '79 Community Development and Housing Plan. In addition to addressing blighting conditions the objectives of this project include providing opportunities for the development of new industries, expanding existing businesses, and stimulating commercial development along the Third Street shopping corridor in Bayview Hunters Point.

While the specific income levels of the jobs to be generated as a result of this project cannot be determined in advance, it is our conclusion that the majority of job opportunities will be for low and moderate income persons. This conclusion is based upon the type of

development proposed for the area; the type of jobs expected to be available; the proximity of the area to the Bayview Hunters Point area; the accessibility of the area to public transportation and the Redevelopment Agency's requirement of developers, that priority for new or expanded job opportunities be given to qualified residents of the NSA. The City will be requested to gather data and report to HUD on income levels of jobs generated as a result of this project.

- c. Disallow funding for the Yerba Buena Center unless it can be determined that activities to be funded with CDBG funds are elig

The City has allocated \$583,198 in FY '80 CDBG funds to undertake activities in the Yerba Buena Center Redevelopment Project Area. These activities, which include funds for marketing activities, funding of the San Francisco Coalition to generate jobs and entrepreneurial opportunities for minorities, women and residents of San Francisco, and funds to cover interest payments are eligible CDBG activities and have been included in previously approved Redevelopment Agency budgets for the Yerba Buena Center Project. The expenditure of CDBG funds for YBC is eligible under Section 570.201(h) and not under Section 570.203 (Economic Development Activities). This project meets the program benefit requirements under Section 570.302 and not Section 570.302(d)(iii). No CDBG funds are being spent on the construction of the George Moscone Convention Center nor on the construction of private office buildings, hotels or market rate housing.

These activities are appropriate and necessary to carry out the objectives of the approved Redevelopment Plan. The type of development proposed will provide job opportunities for low and moderate income residents of San Francisco. The Redevelopment Agency has an Affirmative Action Plan for construction type jobs. There is no CDBG requirement for affirmative action plans with respect to private development, however, the Agency is in the process of developing an affirmative action program for jobs to be generated from new development. While no set percentage applicable to all developers will be established, the Agency will work with each developer to define a program that fits each type of development proposed.

The \$3,798,014 in urban renewal categorical funds will be spent on eligible urban renewal activities included in the approved project expenditure budget for this project.

d. Disallow funding for the Mayor's Economic Development CouncilNeighborhood Commercial Revitalization

The Complaint requested that funds for the City's Neighborhood Commercial Revitalization Program be disallowed until the City could demonstrate that this project would "attract or retain neighborhood commercial facilities that provide essential service" to lower income persons and that these were measures in place that would prevent displacement or other hardships to existing businesses owned by lower income persons.

The EDC's Neighborhood Commercial Revitalization Program will operate in five neighborhoods (Bayview Hunters Point, Hayes Valley, Inner Mission, Chinatown and South of Market). Three of these neighborhoods are in NSA's and two (Hayes Valley and South of Market) are located in neighborhood improvement areas. In its FY '80 program the City has allocated \$300,000 for public improvements and facade improvements in the designated neighborhood commercial improvement areas. Of EDC's \$200,000 in administrative funds \$116,000 will be used to administer this program.

The objective of this program is to stabilize and revitalize neighborhood commercial areas in low and moderate income neighborhoods. EDC will work with merchants to retain those businesses in the area and to attract new merchants to serve the needs of the neighborhood. Grants or low interest loans will be made available for facade and interior improvements. The public improvements (trees, benches, lighting) to be made in the area are intended to make the area more attractive for neighborhood shoppers.

Our review of the project designation as well as the areas to be served has resulted in a determination that this program is eligible and not inappropriate to meet the need of neighborhood revitalization, which includes upgrading neighborhood commercial areas that serve low and moderate income persons. There is no evidence that this program will result in the displacement of lower income merchants. In fact, the objective of this program is to improve their economic position by increasing their revenues. There is a possibility that rents would be raised as business improves in the area. Merchants, however, should be able to afford increased rents due to increased sales.

11.

This program will be monitored closely to assure that its results do not run counter to its objectives or to the objectives of the CDBG program.

Duplication of funding for UDAG activities

As pointed out in the complaint, development of UDAG grant proposals is an eligible CDBG administrative expense. Responsibility for developing and submitting UDAG proposals rests with the Mayor's Office of Economic Development and not the Mayor's Office of Community Development. Our review of the situation indicates that there is no duplication of effort with respect to this activity.

Administration of Business Revitalization Loan Program

The complaint raises questions over who should be responsible for administering the Business Revitalization Loan Program. The complainants question the involvement of EDC in this program since the City is already funding several local development corporations to carry out business loan programs. The decision of who should implement approved activities is a local decision. Based upon our monitoring there is no evidence at this time that would warrant HUD requiring the City to choose one group over another to carry out business loan activities. However, the City needs to develop a strategy on how EDC and the neighborhood development corporation will relate with each other.

Central Waterfront Project

The City's CDBG application does not specifically identify any funds for the Central Waterfront Project. The EDC does expect to provide loan funds in this area but it anticipates using Department of Commerce funds rather than SBA 502/CDBG loan funds.

e. Disallow funding for the Northeastern Waterfront project

In its FY '80 application, the City has allocated \$673,615 for the Northeastern Waterfront project. These funds will be used for acquisition of property, relocation, street improvements and development of a program to rehabilitate historic structures in the area. This project area is in the process of being designated as a redevelopment area.

This project was classified as one which would prevent or eliminate slums or blight, rather than one which would principally benefit low or moderate income persons. Because of the nature of this project, it has to be designated as an NSA in order to meet the program benefit requirements as contained in Section 570.302 (e) of the CDBG Regulations. Therefore, we had to request the City to submit a revised Project Summary for the Northeastern Waterfront Project, classifying it as an NSA. Although the City has provided us with a revised Project Summary, the City has yet to submit a revised Comprehensive Strategy, which is necessary if the area is to qualify as an NSA. Also, the City is not in a position to have the documentation it must maintain supporting a determination that the area meets criteria for blight. This is because the City has yet to take action designating the area as being blighted.

Therefore, this project has been conditionally approved pending the submission of a revised Comprehensive Strategy and Three-Year Project Summary, and pending the designation of the area as blighted. This will not preclude the City from carrying out necessary administrative and planning activities on this project.

At the time the City submits the additional information needed in order for the Area Office to accept the City's designation of this area as an NSA it will be reviewed to determine that it meets the requirements of Sections 570.301(c) and 570.302(e)(i) and if appropriate Section 570.203.

In the case of block grant funded construction projects and HUD financed housing projects, the affirmative action requirements of Executive Order 11246 and the requirements of Section 3 will be applicable. There is no requirement that private developers commit to affirmative action program unless federal funds would be involved in the development.

f. Refuse to permit new or expanded economic development projects by the Redevelopment Agency until the Agency can demonstrate performance

From our monitoring of the Agency we have determined that it has the capacity to carry out redevelopment activities including economic development activities. The lack of performance in developing the Filmore Center is the result of market and economic conditions not the Agency's management capacity. It should be pointed out that the Agency has funded a non-profit development corporation to assist the Agency.

13.

- g. Require City to collect data on job generation and benefit to low and moderate income persons

The City has been requested to collect and report on jobs generated from block grant funded economic development activities. This information will be reviewed by the Area Office to ensure that activities continue to meet objectives and requirements of the Block Grant Program.

- h. Reprogram funds from ineligible economic development to existing eligible ones

As stated earlier in this reply we have found all proposed activities to be eligible. Therefore, there are no ineligible economic development funds to be reprogrammed for such activities as administration of local development corporations and loan funds for these corporations.

4. General Program Management and Administration

(a) Need for front end review of application

Even though the Area Office found that over 75% of the City's FY '80 application principally benefitted low and moderate income persons, CPD staff, as it has in the past, reviewed each program or project to determine its eligibility and appropriateness. Based upon the information contained in the City's original application and the revisions submitted on January 8, 1980, we have found all activities to be eligible. However, we are withholding designation of the Northeast Waterfront area as an NSA until additional information is submitted. Also, as indicated, certain activities bear close watching to ensure their continued eligibility.

We have determined that the City's FY '80 Program as required by Section 570.302(b)(2) does as a whole principally benefit low and moderate income persons. While the City's proposed activities were also found not to be plainly inappropriate, we will in the letter approving the City's application, make several recommendations to the City on how to make certain projects and activities more appropriate (i.e., Mission NSA, downpayment assistant program, public services and rehabilitation).

Of the City's entitlement of \$28,728,000 (includes the \$1.8 million in our letter of January 7, 1980) 89.2% has been determined to principally benefit low and moderate income persons. This figure is lower than the City's original figure of 93.9% because the Area Office determined that the Upper Ashbury NSA project no longer principally benefitted low and moderate income persons. We did, however, determine that this project meets the program benefit requirements set forth in Section 570.302(e)(1).

- (b) Require City to collect pertinent data for each household served.

As stated earlier, the City has developed a reporting format to collect this data and copies of the report will be required to be submitted to HUD monthly. This report will be reviewed to determine the continued eligibility and appropriateness of the City's rehabilitation program.

- (c) Require City to submit additional information regarding SFR and BBI.

The Area Office has obtained sufficient information from its monitoring of these agencies and their programs to make a judgment that these agencies have the continuing capacity to carry out approved programs.

- (d) Require City to submit progress schedules for completion of approved economic development and housing activities.

The City's progress in implementing economic development and housing related activities as well as other programs will be monitored during the year. In addition to the information that is provided in meetings and conversations with City staff and operating agencies during the year, the progress of these activities will be reviewed at the monthly monitoring sessions that are held with the City.

5. Other Issues Raised in Administrative Complaint

Hap Rehabilitation Goals

In footnote 6 on page 11, the Complaint questions if the City has included in its rehabilitation goals units that upon rehabilitation will not be occupied by low and moderate income persons. We have discussed this matter with the City and they have assured us that the only units included in its HAP rehabilitation goals are

those that upon rehabilitation will be occupied by low and moderate income persons. As we discussed elsewhere in this reply the City's rehabilitation goals were ambitious and the City was requested to revise its goals downward. The revised rehabilitation goals which still appear to be somewhat ambitious do, according to the City, only include units that upon rehabilitation will be occupied by low and moderate income persons.

The rehabilitation reports to be submitted to HUD as well as the information in the City's Annual Grantee Performance Report will be closely reviewed to make sure that only rehabilitation units occupied by low and moderate income persons are counted towards meeting HAP goals.

Displacement Strategy

In footnote 7 on page 12 it is maintained that the City has underestimated the extent of displacement resulting from CDBG activities and overestimates the effectiveness of the actions it has taken or proposes to take to mitigate displacement.

During the three year period 1979 - 1981 the City stated that it expects to displace about 1060 households as a result of governmental action. All but 60 households are expected to be renter households. The majority of households expected to be displaced will be from the North of Market NSA. Since the City has been delayed in starting its rehabilitation in the North of Market the actual number of persons that will be displaced during the period 1979 - 1981 will probably be less than anticipated. With respect to indirect displacement occurring as a result of general market forces, rents being raised, condo conversions, and neighborhood revitalization projects, no specific data is available.

The City in its Three Year Community Development and Housing Plan and in its reply to the Complaint described the steps it is taking to minimize displacement and to assist low and moderate income persons to remain in their neighborhoods if they choose to do so. While we find the strategies described to be adequate, we have asked the City to review the effectiveness of its strategies and explore additional strategies that will mitigate displacement and allow residents to remain in neighborhoods that are undergoing revitalization.

The Department shares the complainants concern that neighborhood revitalization can result in a change in the income characteristics of an area so that the ultimate beneficiaries of neighborhood revitalization are not low and moderate income persons. To assist the City of San Francisco in analyzing the impact that neighborhood revitalization efforts are having on low and moderate income persons and developing additional actions that will assist in allowing residents to remain in their neighborhoods, the Department has provided funds to Berkeley Planning Associates to work with the City of San Francisco to develop additional strategies to mitigate displacement. It should be stressed that Berkeley Planning Associates will be developing an implementation plan and not undertaking a study. However, as part of developing recommended courses of actions to be taken by the City, Berkeley Planning Associates will analyze the displacement, both direct and indirect that is occurring and the causes of this displacement. The Area Office will closely review the City's actions to determine their effectiveness in providing residents of neighborhoods being revitalized with CDBG funds the opportunity to remain in these areas.

In the case of the North of Market NSA where the majority of displacement is expected to occur over the next few years, we have stressed with the City the need to concentrate its assisted housing resources in this area and rehabilitate vacant units first so that affordable housing will be available within the area for those persons who have to be displaced in order for other rehabilitation to proceed and who wish to remain in the neighborhood. The City is also working on developing assisted units in the area.

